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ESTABLISHMENT OF A DEFENSE FOREIGN ECONOMIC ADMINISTRATION

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The purpose of this memorandum is to recommend the immediate establishment of a Defense Foreign Economic Administration (DFEA), built around the present Economic Cooperation Administration as a base and embracing in a single agency the operating programs necessary to the execution of an integrated foreign economic strategy. The memorandum sets forth the reasoning which leads to this recommendation, and suggests the degree to which certain current programs should be consolidated in DFEA.

The President has emphasized the danger which threatens this nation and the free world. A National Emergency has been proclaimed. National mobilization authority has been concentrated in the Director of Defense Mobilization. Military strength and defense production are to be greatly accelerated at home, and we are bending every effort to secure a similar build-up by other free nations. In a situation of this urgency, it is clearly imperative to so organize our efforts that we can be sure that all national programs and policies, existing or contemplated, will directly support the overriding national objective and contribute to it with maximum effectiveness.

To achieve this tightened unity of purpose in foreign economic policy and to insure its effective execution through operating programs, three actions are necessary: (1) a decision to review, and if necessary to reshape, all existing foreign economic policies and programs to fit a true economic strategy, attuned to existing urgencies and positively geared in with current military and other strategies; (2) institution of high-level arrangements for bringing to bear political, military, psychological, and resource considerations in appraising and guiding such an integrated economic strategy and in continuously controlling its execution through appropriate operating devices; and (3) consolidation of the various operating programs into a single foreign operating agency responsive to the over-all strategy, playing a major role in evolving it, and able to carry it out through a variety of instruments.

Means for achieving the first two of these actions are understood to be under consideration elsewhere in the Executive Branch; while the recommendations of this memorandum should be of assistance in the first two fields, they are primarily directed to the third.

During the early part of World War II the division of responsibility for foreign operating programs among a number of separate and often competing agencies proved ineffective. Various interagency coordinating devices were tried but failed to remedy the situation. Finally, drastic action to achieve a considerable degree of integration proved necessary and a Foreign Economic Administration was formed with predominant responsibility for non-military lend-lease, foreign procurement and development, a number of foreign economic controls and sanctions, foreign relief and rehabilitation, and a part of the research and intelligence operations to support these functions.

At present, the several foreign operating programs are again widely dispersed throughout the Government. The largest foreign aid programs are the responsibility of ECA, but the Army, the State Department, the Export-Import

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Bank and to a lesser extent other Government agencies are all engaged in foreign grant, loan or technical assistance operations. The U.S. channel to United Nations relief and technical assistance programs is through State, while the U.S. contact with the International Bank is through Treasury. GSA, Interior, ECA, Munitions Board and Agriculture all have responsibility, either for actually procuring foreign supplies for United States use, or for determining the kind and amount of such procurement, or for developing additional foreign production for such use. Export controls are administered principally by Commerce; financial controls have just been instituted under Treasury. There is no clearly assigned responsibility for determining the usefulness of more than one economic sanction against a particular nation or for selecting and operating in varying combinations the most suitable sanctions.

The disadvantages of this dispersal have been generally recognized, even before the full gravity of the present emergency was apparent. Both the Hoover Commission Report of 1949 and the Gray Report of last summer recommended combination of major foreign operating programs in a single agency. The need is far more acute today.

FEA of the last war had its deficiencies and it is not proposed that an exact replica be recreated now. However, the principle of combining the major foreign economic operations in a single agency has advantages which would appear to be decisive, not only in global war but also in a period of localized war and large-scale mobilization, requiring careful husbanding of national resources and the coordinated use of all instruments of national power. Among the advantages of centralization are the following:

1. Assurance that the major foreign programs will not only be mutually consistent but will be used as integral parts of one comprehensive foreign economic strategy, pointed to the same objectives, geared to a common timetable, and capable of concerted adjustment if changes in over-all strategy so dictate.
2. A means for weighing the relative value of each of several possible economic instruments in achieving a particular objective, and of selecting and applying that one or that combination which appears most promising. This makes it possible to reinforce one economic instrument with another — e.g., to strengthen a friendly nation both by furnishing needed supplies and by U.S. procurement resulting in dollar earnings, to use economic aid both to maintain stability and as an incentive to greater production of needed materials, or to apply pressure to a non-cooperative country both through restriction of exports to it and through refusal to import from it.
3. A single channel for conducting U.S. foreign economic transactions with and operations within a given foreign country, avoiding the dangers inherent in the diverging methods and aims of several U.S. agencies independently pressing their own objectives with respect to that country.
4. A single foreign claimant agency to which U.S. requirements and allocation bodies can look for a complete and balanced estimate of aggregate foreign requirements.

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5. A single point of decision and a common set of criteria as to how our limited export availabilities can best be distributed among competing foreign claimants and uses to best further defense aims.

6. A comprehensive evaluation of foreign resource availabilities for U.S. and allied defense needs.

7. A focal point for U.S. participation in mutual assistance programs and in other interallied undertakings to achieve the most effective use of the resources of the free nations for common defense.

It is urgent to achieve a tightly knit, flexible foreign economic strategy and to put all its component elements into balanced operations. As a major step in that direction, acceptance of the principle of one foreign operating agency with global jurisdiction is strongly recommended. The details of the agency's organization and powers, the decision as to exactly which functions and programs should be transferred to it or initiated by it, and the phasing of such action, will of course require intensive analysis and will have to be worked out by the agencies most directly concerned. Consideration will have to be given to the creation of appropriate interagency machinery. ECA's own views will be of primary value in these respects. The following specific actions are suggested here as an indication of the nature and scope of the consolidation contemplated in the recommendation.

#### General

The Economic Cooperation Administration should be redesignated the Defense Foreign Economic Administration. It should be instructed and should be given the necessary legal and administrative authority to readjust all its present programs to conform to the current requirements of economic strategy. It should start immediately to organize and prepare for the addition of other operating programs as suggested below, and to acquire such specialized personnel as it will need to initiate functions not now performed elsewhere.

#### Foreign Supply and Assistance

1. Grants for economic assistance. ECA is already administering economic assistance grant programs to the Marshall Plan countries and their dependent overseas territories, to Yugoslavia, Formosa, the Philippines, Indo-China, Indonesia, Thailand, Burma and the remnants of a program for South Korea. The principal non-ECA grant program for economic aid is the Army's GARIOA program in Japan and the Ryukyus. If this program is to continue beyond the present fiscal year, it might well be transferred to DFEA. Similarly the program of development grants recommended in the Gray Report should, to the extent such grants can serve the emergency economic strategy, be initiated and administered by DFEA. U.S. operating participation in specialized United Nations' relief activities, such as the International Refugee Organization, the International Children's Emergency Fund, and the Palestine refugee resettlement program, should be delegated to DFEA by the State Department, though State should retain its coordinating responsibility for U.S. participation in all UN bodies.

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2. Assistance for foreign military production. The distinction heretofore maintained between economic aid aimed at strengthening the basic economies in vital foreign areas and the supply of materials and equipment in direct support of foreign military production will no longer have practical significance, since the primary purpose of virtually all aid will be to assist each country to make its best contribution to the common defense, whether directly through production of military supplies or raw materials or indirectly through maintaining its own stability and strength. DFEA should have operating responsibility for all supply assistance to foreign nations except military end-items.

3. Foreign loans. ECA has made loans as well as grants to ERP countries and administers the loan to Spain enacted by the last session of the 81st Congress. The Export-Import Bank acts as the agent of ECA for these loans, and also for the program of investment guarantees to private capital called for by the Economic Cooperation Act. In addition, the Export-Import Bank has extensive lending authority under its own charter and power to borrow from the Treasury. The U.S. has a strong influence on the lending program of the International Bank for Reconstruction and Development. Finally, authority for foreign loans and loan guarantees is contained in Title III of the Defense Production Act, the administrative arrangements for which are specified in Executive Order 10161.

Since loans are an alternative to grants and can serve a similar purpose in the over-all economic strategy, DFEA should be given general control over U.S. foreign lending programs. For this purpose the Export-Import Bank should be made a subordinate corporation of DFEA. Again, DFEA should have a strong voice in determining the U.S. position toward the policies and programs of the International Bank, and DFEA should administer the foreign loan and loan guarantee provisions of the Defense Production Act in accordance with appropriate directives.

4. Exports not financed by U.S. aid. Administration and sub-allocation of export quotas to countries receiving U.S. assistance is a necessary adjunct to operation of the assistance programs, and should therefore be vested in DFEA. Moreover, practical channeling of foreign supply to conform with U.S. and allied objectives in the mobilization period requires centralized control over U.S. exports whether or not financed by U.S. aid programs. As a general rule, therefore, DFEA should exercise control over export quotas for all countries, should receive and screen all foreign requirements for U.S. goods, and should be the sole export claimant before U.S. requirements and allocation bodies. Whether DFEA should also perform the actual export licensing function, in addition to determining quotas, is of secondary importance.

5. Technical assistance. The Point IV machinery which has been set up under State Department direction should be transferred to DFEA to provide close integration with the fairly large-scale ECA technical assistance program already in operation both in Europe and its dependencies and in the Far East.

#### Procurement and Development

Responsibility for control of these functions is, at present, widely dispersed throughout the Government. World War II experience demonstrated (1) that



actual procurement and development for procurement are inextricably related and (2) that there is need for maximum consolidation of foreign procurement into one agency.

Moreover, foreign procurement and development on the one hand and foreign economic assistance on the other are so complementary as to constitute integral and, at points, almost indistinguishable parts of the total operation. For example, the problem of what resources the U.K. produces has as its counterpart what the U.K. needs from other sources. Again, foreign procurement in a neutral country may have the dual purpose of getting the goods (procurement) and of stabilizing the economy (economic assistance). Conceivably, the foreign procurement and development agency could operate through procurement and loan agencies outside its administrative jurisdiction. Yet the need for a single foreign operator appears to outweigh any gains which might come from grouping all domestic and foreign operations on a functional basis such as all procurement or all loans. The foreign operating agency in handling procurement and development should, of course, obtain the maximum advice and assistance from parallel domestic agencies such as the Defense Minerals Administration. It should also correlate its efforts with domestic procurement agencies but in the final analysis the views of these agencies should be advisory.

Integrated control of foreign procurement and development would involve the following specific actions:

1. Establishment of a central point within the Government for the determination of total U.S. requirements and available supply in the case of any given commodity. Such a point should be in a WPB-type or WFA-type agency, at the present time most nearly represented by NPA and Agriculture. This type of agency should assume responsibility not only for determining requirements but for issuing the broad supply directives for meeting those requirements. In the foreign field these supply directives would be issued to the foreign operating agency.
2. The Munitions Board's responsibility for issuing procurement directives to GSA for stockpile requirements should be transferred to the WPB-type agency. Stockpile procurement abroad would then be considered by the central programming agency simply as one segment of total U.S. demand.
3. The foreign procurement and development organization should be created in the foreign operating agency by: (a) transferring foreign procurement now handled by GSA and the Department of Agriculture; (b) centralizing foreign development activities now being carried out in a number of places in the Government in the foreign operating agency.
4. To effectively implement the foreign procurement and development job, an over-all buying and development corporation comparable to the U.S. Commercial Corporation should be established within the foreign operating agency. The corporate form is needed because of the urgency of the job to be done and the need for the widest legal latitude and flexibility in the conduct of operations. Effective control of the corporation should be exercised by the foreign operating agency, but the interests of other Federal agencies should be recognized. One alternative for doing this would be to give them a place on the Board of Directors of the corporation.

### Interallied supply planning and allocation

Foreign procurement and development as well as the U.S. assistance programs are important links in an interallied supply and production program. Therefore, the foreign operating agency ought to play an important role in the work of interallied supply and allocation boards, including the provision of some staff.

It is recognized, however, that the leading role on the U.S. side should be played by the agency or agencies dealing with the entire U.S. supply and production program including the allocation of supply to foreign use and the over-all production and development arrangements among the allies.

### Economic Sanctions

In view of the prevailing uncertainty regarding the exact meaning of the term Economic Warfare, the label "Economic Sanctions" is used here to indicate the various measures employed (a) to injure the economy of the enemy, or (b) where necessary, to induce neutrals to fashion their economic relations with the enemy in accordance with U.S. and allied wishes.

The traditional Economic Sanctions developed in the two World Wars are: Embargo, Shipping Controls ("Paper Blockade"), Blacklisting, Preclusive Buying, Foreign Assets Control and War Trade Agreements. In addition, Export and Import Controls and Foreign Economic Aid, though aimed primarily at strengthening the war economy of the U.S., her allies and friendly neutrals, may also be used offensively ("sanctions") to damage the enemy economy or to put pressure on neutrals.

Should responsibility for the handling of these many weapons in the arsenal of sanctions be vested in a number of different departments, boards, committees and similar bodies, it would be difficult, if not impossible, to obtain that degree of coordination and integration in planning and action which ought to be obtained in the interest of maximum effectiveness. It would seem advisable, therefore, to concentrate in DFEA the responsibility for concrete planning and, to a large extent, also for operations, in the entire area of Economic Sanctions.

While some sanctions, Preclusive Buying for instance, could be administered directly by DFEA, there will be other sanctions in regard to which actual technical operations might be conducted by those long established Government departments which in view of their traditional functions, experience and trained personnel seem best fitted for the task, e.g., Treasury in the field of Foreign Assets Control. DFEA would still serve, however, as the general directing body for the whole arsenal of possible sanctions, subject always to high-level economic strategy decisions such as the working out of over-all national policies on sanctions, the outlining of basic strategic aims, and the final decision on the psychological and political advisability of applying certain sanctions at a given time and with respect to a specific country.

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It follows from the foregoing that within the framework of over-all policies laid down by top-level authorities, the DFEA would plan, guide, and generally direct our efforts in the field of Economic Sanctions. In regard to certain categories of sanctions, the agency would not only plan and direct, but actually conduct operations. This complex task will require a systematic, imaginative and ceaseless exploration of old and new ways in which all the various types of sanctions might be used. To probe continuously for concrete possibilities of applying the economic weapon most effectively and to prepare, and revise, careful plans for the integrated use of these various weapons will constitute, therefore, one of the agency's primary functions.

#### Analysis and Research

Quite a number of agencies are concerned at present with analysis and research in the field of foreign economics. While the data collected and presented by these various agencies are most valuable and useful, it is nevertheless true that each agency is bound to concentrate on those foreign economic issues which are akin to its own primary sphere of interest. The reports prepared by CIA and other organizations on the economies of foreign countries are the result of plans and work schedules drawn up by these organizations with an eye on their own specific needs and requirements, which are not necessarily the same as those of the proposed DFEA. Certain gaps existing today in the coverage and analysis of foreign economics may even be due, at least in part, to the very fact that heretofore there has not existed within the framework of the U.S. Government a strong and insistent claimant for pertinent material.

It would seem advisable, therefore, to establish within DFEA an Analysis and Research Division which could pool and systematize the data collected by other agencies; which would be authorized to make specific demands on the collecting agencies for additional data, and which, finally, could be relied upon to produce by its own efforts comprehensive over-all surveys and special reports attuned to the specific needs and problems of the DFEA.

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